

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**DOMINICAN REPUBLIC**

**TECHNICAL-COOPERATION LOAN  
PROGRAM TO SUPPORT IMPLEMENTATION  
OF PENSION REFORM**

**(DR-0146)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

CERSS	Comisión Ejecutiva para la Reforma del Sector Salud [Executive Committee for Health Sector Reform]
CNSS	Consejo Nacional de Seguridad Social [National Social Security Council]
GDP	gross domestic product
IDSS	Instituto Dominicano de Seguridad Social [Dominican Social Security Institute]
OC	Ordinary Capital
PCU	Program coordinating unit
PFA	pension fund administrator
SDSS	Sistema Dominicano de Seguridad Social [Dominican Social Security System]
SIPEN	Superintendencia de Pensiones [Superintendency of Pensions]



# DOMINICAN REPUBLIC

## IDB LOANS

APPROVED AS OF DECEMBER 31, 2003

	<i>US\$Thousand</i>	<i>Percent</i>
<b>TOTAL APPROVED</b>	<b>2,264,498</b>	
DISBURSED	1,697,951	75.0%
UNDISBURSED BALANCE	566,547	25.0%
CANCELLATIONS	557,074	24.6%
PRINCIPAL COLLECTED	628,914	27.8%
<b>APPROVED BY FUND</b>		
ORDINARY CAPITAL	1,473,838	65.1%
FUND FOR SPECIAL OPERATIONS	705,269	31.1%
OTHER FUNDS	85,392	3.8%
<b>OUTSTANDING DEBT BALANCE</b>	<b>1,069,037</b>	
ORDINARY CAPITAL	638,022	59.7%
FUND FOR SPECIAL OPERATIONS	422,357	39.5%
OTHER FUNDS	8,658	0.8%
<b>APPROVED BY SECTOR</b>		
AGRICULTURE AND FISHERY	506,054	22.3%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	128,420	5.7%
ENERGY	335,107	14.8%
TRANSPORTATION AND COMMUNICATIONS	230,811	10.2%
EDUCATION	253,321	11.2%
HEALTH AND SANITATION	185,306	8.2%
ENVIRONMENT	0	0.0%
URBAN DEVELOPMENT	32,558	1.4%
SOCIAL INVESTMENT AND MICROENTERPRISE	335,860	14.8%
REFORM PUBLIC SECTOR MODERNIZATION	182,058	8.0%
EXPORT FINANCING	20,296	0.9%
PREINVESTMENT AND OTHER	54,706	2.4%

\* Net of cancellations with monetary adjustments and export financing loan collections



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# DOMINICAN REPUBLIC

## STATUS OF LOANS IN EXECUTION AS OF DECEMBER 31, 2003

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED *	AMOUNT DISBURSED	% DISBURSED
<b><u>REGULAR PROGRAM</u></b>				
Before 1996	2	104,000	70,930	68.20%
1996 - 1997	2	93,200	36,114	38.75%
1998 - 1999	7	281,660	114,057	40.49%
2000 - 2001	3	274,300	107,397	39.15%
2002	3	140,000	0	0.00%
<b>TOTAL</b>	<b>17</b>	<b>\$893,160</b>	<b>\$328,498</b>	<b>36.78%</b>



Inter-American Development Bank  
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## Dominican Republic

### Tentative Lending Program

**2003**

Project Number	Project Name	IDB US\$ Millions	Status
DR0146	Pensional Reform Implementation	5.0	
DR0153	Inst. Strengthening for Local Development	40.0	
DR0152	Competitiveness Promotion Program	7.0	
DR0151	Financial Reform Consolidation Sector Program	100.0	
<b>Total - A : 4 Projects</b>		<b>152.0</b>	
DR0149	Inform. Society's Institutional Develop	5.6	
DR0148	Sector Facility for Foreign Trade	5.0	
DR0154	Tertiary Education Improvement	34.0	
DR0141	Housing Program	30.0	
DR0143	Rehabilitation Historical Center Sto Domingo	50.0	
*DR0147	Andres Power Plant	60.0	
<b>Total - B : 6 Projects</b>		<b>184.6</b>	
<b>TOTAL 2003 : 10 Projects</b>		<b>336.6</b>	

**2004**

Project Number	Project Name	IDB US\$ Millions	Status
DR0076	Comunitary Development Program	40.0	
DR0142	Credit Global Program	30.0	
<b>Total - A : 2 Projects</b>		<b>70.0</b>	
DR0127	Municipal Governments Development	30.0	
DR0150	Pension Reform Sector Program	100.0	
<b>Total - B : 2 Projects</b>		<b>130.0</b>	
<b>TOTAL - 2004 : 4 Projects</b>		<b>200.0</b>	
<b>Total Private Sector 2003 - 2004</b>		<b>60.0</b>	
<b>Total Regular Program 2003 - 2004</b>		<b>476.6</b>	

**\* Private Sector Project**

# PROGRAM TO SUPPORT IMPLEMENTATION OF PENSION REFORM

(DR-0146)

## EXECUTIVE SUMMARY

<b>Borrower:</b>	Dominican Republic	
<b>Executing agencies:</b>	Gerencia General del Consejo Nacional de Seguridad Social [National Social Security Council General Management] (CNSS), Superintendencia de Pensiones [Superintendency of Pensions] (SIPEN) and Dirección de Información y Defensa del Afiliado [Information and Member Protection Department](DIDA).	
<b>Amount and source:</b>	IDB: (OC)	US\$5,000,000
	Local:	US\$ 700,000
	Total:	US\$5,700,000
<b>Terms and conditions:</b>	Amortization period:	25 years
	Grace period:	3 years
	Disbursement period:	3 years
	Interest rate:	Variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
<b>Objectives:</b>	Currency:	U.S. dollars from the Single Currency Facility
	<p>The program's main objective is to support the development and implementation of the pension area of the Dominican Social Security System (SDSS) created by Law 87-01, through a technical cooperation loan for US\$5 million and in particular to introduce the pension contribution system. The specific objectives are to: (i) provide technical support to establish all the necessary regulations for proper functioning of the Superintendency of Pensions (SIPEN), including its institutional, administrative, financial, and technical design and implementation; set the terms and conditions for the creation and operation of pension fund administrators (PFAs); establish a prudential investment regime for PFAs consistent with the size of the Dominican financial system and the risks in that system; create and implement training mechanisms for SIPEN staff; and develop information and internal and external communication systems for SIPEN and the supervised entities; (ii) support the authorities in preparing an information application for financial evaluation of the</p>	

new pension regime; examine the fiscal impact of pension reform; verify the financial viability of the new system; and identify options for financing it; and (iii) work with authorities on a transparency strategy for implementation of the new pension regime, by developing promotion and dissemination plans for all participants.

**Description:**

The following three components were identified for program implementation:

**Component 1. Superintendency of Pensions and preparation of supplemental rules (US\$3,207,927).** The purpose of this component is to support the organization and implementation of the Superintendency of Pensions (SIPEN). The main activities include: (i) specialized technical assistance and training for SIPEN personnel; (ii) procurement of the corresponding software and hardware; (iii) the process for identifying participants system and issuing identification cards therefor; (iv) preparation and dissemination of the regulations and supplemental rules needed for the operation of the new pension regime, including: operating regulations for PFAs and delivery of their services; regulations for existing pension plans and the supplemental plans created by the law; design of the information, control, and monitoring system; operating regulations for the Interagency Pension Committee, the National and Regional Medical Commission, and the Risk Rating and Investment Ceiling Commission; risk rating and investment ceiling policies; and policies for issuing acceptance bonds; (v) financial and actuarial valuation of supplemental regimes and existing pensions plans, to design a system for calculating and allocating acceptance bonds for transfers from current systems to the new one; (vi) financial and actuarial valuation of the new pension system; (vii) a statistical and demographic survey with tables on mortality and disability in the country; this component also includes rules for evaluating disability; and (viii) a study on methodologies for calculating programmed annuities and withdrawals.

**Component 2. Analysis of the financial viability of the new pension regime (US\$478,512).** This component involves the consolidated financial evaluation of current liabilities of existing regimes and the new pension regime's viability and sustainability. It includes the following activities: the financial and actuarial valuation of the Dominican Social Security Institute (IDSS); valuation of the fiscal impact of the new pension regime, along with financing options that will guarantee its long-term sustainability; particularly, valuation of the cost of the minimum pension guarantee, using options-pricing models. It is important to mention that analyses performed prior to the enactment of the new law highlighted the lack of appropriate data for proper valuation of pension reform; to date, that situation has not been



remedied. This component will therefore include collecting and constructing the data needed to properly assess the various costs and implications of pension reform and will provide for ongoing monitoring.

**Component 3. Plan to promote and publicize the new pension system (US\$1,591,071).** This component corresponds to the authorities' intention to make implementation of the new system transparent; for this, the different agents that make up the new system (regulators, supervisors, pension funds, and the insured) must be "educated and trained" so they are fully aware of their rights and obligations. This component includes a 12-month institutional radio and television campaign to promote the new system, development of a user information system, and implementation of an education campaign through schools on the importance of pension savings and on the role of SIPEN. It also involves conducting two surveys to measure the impact of the institutional publicity campaign, which will be conducted four months and 18 months into the program.

**The Bank's  
country and  
sector strategy:**

As stipulated in the country paper (document GN-2153-1), the Bank's strategy in the Dominican Republic aims to help authorities preserve the economic growth and stability achieved in the last decade, while tackling the challenge of reducing the social debt. To that end, the Bank, in addition to supporting specific programs targeting education, health, housing, water supply, sanitation, and social investment, is also seeking to help resolve macroeconomic weaknesses and expand institutions' ability to meet social demands. Moreover, the Bank's strategy on development of financial markets considers financial deepening to be key in stepping up economic and social growth in countries. By extending coverage and protection to the most vulnerable sector of the population, increasing private-sector involvement in the delivery of services, and fostering development of PFAs as institutional investors, the development and implementation of the SDSS, in particular the pension area, clearly contribute to fulfillment of the Bank's strategy in the country. The program is consistent with the Bank's current strategy for the country, particularly vectors I and II, the objectives of which are to help reduce the country's fiscal and financial vulnerability and improve its capacity to provide social services. The region included this operation in the operations program presented to the Board as part of the strategy update.

**Coordination with other multilateral development institutions:**

The World Bank does not have any lending operations for pension reform. However, it has offered to provide technical assistance for training the staff of the Superintendency of Pensions, particularly, in the use of the PROST model, in order to determine the cost of reform. The project team has remained in contact with the World Bank specialists through periodic meetings in order to avoid duplication of efforts and promote complementarity in the pension sector initiatives.

**Environmental and social review:**

The program is environmentally feasible, because it will not have a direct or indirect adverse environmental impact, nor is it possible for the operation to promote any positive impacts. This is because its activities focus on implementation and regulation of the Social Security Law, preparation of fiscal impact studies, and implementation of pension training programs. The social elements are considered to be positive indirectly; that is because with the new pension system, the current system, which contains regressive income transfer elements, is being dismantled, and mechanisms are being created to cover the lowest-income segment of the population, especially by establishing a minimum pension. However, its fiscal impact could prove to be significant.

**Benefits:**

This program seeks to obtain direct and indirect benefits in three areas: (i) a significant improvement in pension system supervision; (ii) a quantitative and qualitative increase in the country's demographic data, to be able to anticipate the full effects of the reform, as well as its fiscal implications; and (iii) strengthened dissemination of the pension reform by the National Social Security Council (CNSS). This will make the legislation more relevant and more in line with reality and the feasibility of its implementation and enforcement.

**Risks:**

There are two direct project risks: (1) the execution period; and (2) the role of participating institutions. Regarding the first, even though the execution period of 36 months seems short given the complexity of implementing the new pension system, this time frame coincides with the execution schedule for the various activities specifically set forth in the law. Regarding the second, the institutional weakness stemming from the country's lack of experience with pension systems is another significant risk. It is therefore essential that the new institutional framework for the system be built based on top-quality technical support and that suitable training mechanisms be implemented for all personnel in the government and private agencies participating in the system. The program includes a budget to hire leading international experts so that construction of the new system can move forward efficiently and in a timely fashion, pursuant to the established legal framework.

**Special contractual conditions:****Precedent to the first disbursement:**

- a. That the borrower, through the Technical Secretariat of the Office of the President, has signed an agreement with the CNSS General Management establishing, *inter alia*, the latter's responsibility for program execution, particularly regarding activities in component 2 and stipulating how program funds will be transferred (see paragraph 3.5).
- b. That the CNSS General Management has signed an agreement with SIPEN establishing, *inter alia*, the latter's program execution responsibilities, particularly regarding activities in component 1, and stipulating how program funds will be transferred.
- c. That the CNSS General Management has signed an agreement with Information and Member Protection Department (DIDA) establishing, *inter alia*, the latter's program execution responsibilities, particularly regarding activities in component 3, and stipulating how program funds will be transferred (see paragraph 3.5).
- d. That the CNSS has created the program coordinating unit and selected the minimum personnel needed for it to operate (see paragraph 3.5).
- e. That the program operating regulations have taken effect, in accordance with the terms agreed to in advance with the Bank (see paragraph 3.3).
- f. That the executing agency has presented the plan of operations for the first year of program execution (see paragraph 3.6).

**Special execution condition:** Semiannual administrative meetings are planned for the technical teams from the Bank, the CNSS, DIDA, and SIPEN, for monitoring and readjustments during program execution (see paragraph 3.7).

**Poverty-targeting and social sector classification:**

This operation does not qualify as a poverty-targeted investment (PTI) in the Dominican Republic, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). However, as described in paragraph 4.2, implementation of the measures set forth in this operation has the potential to generate a significant indirect impact on poverty reduction, because the law dismantles the current system, which contains regressive income transfer elements, and creates mechanisms to cover the lowest-income segment of the population, in particular by establishing a minimum

pension.

**Exceptions to  
Bank policy:**

None.

**Retroactive  
recognition of  
expenses:**

Up to a total of US\$300,000 in expenses incurred by the executing agencies after 1 July 2002 for activities in connection with program may be recognized, provided they meet conditions that are substantially the same as those established subsequently in the loan contract, with the prior recommendation, in each case, of the project team (paragraph 2.9).

**Revolving  
fund:**

A revolving fund with 10% of the resources from Bank financing has been envisaged (paragraph 3.8).

**Procurements:**

Goods and related services will be procured and consulting services engaged in accordance with current Bank policies and procedures. The program does not call for the construction of works.

When the amount of the goods to be procured is equal to or greater than the equivalent of US\$250,000 or when the amount of consulting services to be engaged is equal to or greater than the equivalent of US\$200,000, international competitive bidding will be performed. Procurements below those amounts will be governed, in principle, by the provisions of national law, provided they do not contradict basic Bank principles on procurement and contracting.

## I. FRAME OF REFERENCE

### A. Macroeconomic situation

- 1.1 The Dominican economy grew 2.7% in 2001, a rate well below the 7.8% recorded in 2000. This downturn in economic expansion was due to the gradual slowdown of the U.S. and European economies, the appreciation of the dollar vis-à-vis the euro, the aftermath of the September 11<sup>th</sup> terrorist attacks, and the recessionary effect of the adjustment measures the current administration had to take in its first 180 days in office<sup>1</sup> to tackle fiscal and external imbalances. However, the slowdown was accompanied by reduced inflation, lower domestic interest rates, smaller fiscal and external deficits, and strong accumulation of international reserves, laying the foundation for economic recovery in 2002 in the presence of an imminent expansion of public investment.
- 1.2 To counter the economic slowdown, in the fourth quarter of 2001 the authorities relaxed monetary policy and promoted an aggressive public investment program financed with external resources from the sale of “sovereign bonds” on international markets in the amount of US\$500 million and from disbursement of the first tranche (US\$80 million) of the social sector project approved by the Bank in 2001. As predicted, the investment program has stepped up the pace of economic activity, with real growth of 6% in the first half of 2002. However, with a significant drop in external demand,<sup>2</sup> that recovery was accompanied by a progressive imbalance in the current account of the balance of payments, which in turn has led to an adjustment in the nominal and real exchange rate; this adjustment would have been larger had monetary policy not favored the use of reserves to counteract pressures in the exchange market. To prevent the increase in internal aggregate demand from exerting additional pressure on external accounts, the exchange rate, and prices, the authorities recently had to tighten monetary and fiscal policy.<sup>3</sup> The Dominican economy is currently estimated to have grown at a rate of 4.5% for 2002.<sup>4</sup>

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<sup>1</sup> Those measures included: tax reform, which increased the tax burden by the equivalent of 0.3% and 1.1% of GDP in 2000 and 2001, respectively; elimination of the fuel subsidy; and government spending cuts equivalent to 0.8% of GDP in 2000.

<sup>2</sup> Foreign currency receipts from tourism and foreign trade zones fell by US\$293 million (equivalent to 2.7% of GDP) in the first half of this year compared with the same period the previous year.

<sup>3</sup> The most important measures taken by the Government of the Dominican Republic in August of 2002 included: (i) the establishment of a ceiling on bank credit to the public sector; (ii) a cut in current expenditure equivalent to 0.7% of GDP; (iii) postponing until 2003 the use of US\$115 million from sovereign bonds for new public works; (iv) withdrawal from Congress of loan proposals for US\$1.2 billion, particularly for commercial loans, that were awaiting legislative ratification; and (v) presentation to Congress of a tax rectification bill that will produce an estimated increase in tax revenue of 0.5% of GDP.

<sup>4</sup> As of end-September, the nominal exchange rate had recorded an accumulated depreciation over the year to that point of 11%, and net international reserves had fallen by US\$550 million.

- 1.3 While the measures recently taken by the authorities will limit the potential for a more vigorous economic recovery in 2002 over 2001, they will make it possible to create the conditions for sustainable economic growth starting in 2003, when the U.S. economy is expected to recover, which will surely have a positive impact on remittances and Dominican exports.

## **B. Socioeconomic framework**

- 1.4 *The pension system prior to the new Social Security Law.* The level of coverage of the pension system in the Dominican Republic is among the lowest in Latin America – only 18% of the economically active population is covered, compared with 38% for countries of the region as a whole.<sup>5</sup> Due to the absence of a regulatory framework, a multitude of institutions administer pensions services with different structures, most of which are paid by various State agencies, making administrative costs very high. The Dominican Social Security Institute (IDSS) manages a basic pension protection program for low-income wage earners in the private sector, as well as another Dominican government program, through the Ministry of Finance, that awards pension and retirement benefits to government officials and workers, under Law 379. Both programs operate under the pay-as-you-go system. By law, employees of the decentralized public sector, independent workers, and private-sector wage earners with salaries over RD\$4,000 are excluded; however, no such exclusion exists in other countries. In some private enterprises, most pension plans supplement the IDSS program. The armed forces and police have a special system that receives transfers from the State to cover the deficit between contributions and disbursements, as do public educators. IDSS employees have their own retirement fund. Specific sectors, such as drivers, construction workers, port workers, and hotel employees, also have special plans established by specific laws. It is important to reiterate, however, that even though there are numerous pension plans, overall coverage is very low.<sup>6</sup>

## **C. The sector**

- 1.5 The Government of the Dominican Republic created the Executive Commission for Health Sector Reform (CERSS) through decree 308-97 of 10 July 1997, and in October 1997 the Bank approved the health sector modernization and restructuring loan operation (1047/OC-DR). One component of that project, focusing on health, is institutional modernization and restructuring of the IDSS and development of a social security system. It is important to note that as a result of implementation of that operation, it became necessary to comprehensively reform the social security

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<sup>5</sup> Schulthes, W.; Zaslavsky, A.; and Gomez, F.; Final Report “*Consultoría Internacional para determinar los costos de previsión del Proyecto de Ley que crea el Sistema Dominicano de Seguridad Social*” [International consulting services to determine the cost of benefits under the bill creating the Dominican Social Security System]; Office of the President of the Dominican Republic, Executive Commission for Health Sector Reform, December 2000.

<sup>6</sup> Preliminary data indicate that the highest minimum pension category is nearly US\$200 per month.

system in the Dominican Republic, as reflected in the new Social Security Law. Adjustments were recently made to operation 1047/OC-DR to address, in the area of health, the entry into force, implementation, and monitoring of the new Social Security Law. In keeping with the original spirit of subcomponent 3b, which promotes implementation of the new health system, four major strategic areas were identified to receive project support: (i) development of the National Social Security Council (CNSS); (ii) development of the data and collection system; (iii) development of the Information and Member Protection Department (DIDA); and (iv) development of the Superintendency of Health and Occupational Hazards. These areas support essential institutional, implementing, and regulatory developments for the harmonious progress of the new system and complement development of the pension area being financed through operation DR-0146 presented herein.

- 1.6 **Recent social security developments.** In May 2001, Congress passed Law 87-01 on social security reform, authorizing the creation of the Dominican Social Security System, in order to fund protection for the entire population against the risks of old age, disability, mandatory retirement, survivorship, illness, maternity, childhood, and occupational hazards. Regarding pensions, in addition to creating the Superintendency of Pensions (SIPEN), the new law embodies widely-accepted general principles regarding capitalization of individual accounts and private-sector involvement in administering pension reserves, but also presents levels of commitment of fiscal resources the long-term sustainability of which is not sufficiently clear. This reflects the parameterization of the new system as regards pension age and pension value, versus total contributions, due to the establishment of a minimum pension guaranteed by the State and the future creation of pension regimes with high subsidy components. Preliminary estimates of the recently-created social security system suggest that only the subsidized and subsidized contributory regimes of the pension system will create additional demand on public resources equivalent to 1.2% of GDP as of 2004.<sup>7</sup>

#### **D. Country strategy in the sector**

- 1.7 **The new pension system created by the Social Security Law.** The purpose of the reform is to increase coverage of pensions, health insurance, and accident insurance. It intends to extend coverage to all workers in the formal and informal sectors. To that end, the new law creates a system with three pillars: (1) the contributory regime; (2) the subsidized regime; and (3) the subsidized contributory regime. The Dominican Social Security System (SDSS) and, in particular, the pension contribution system will be governed by the following principles: it will be an individually-funded regime administered by public and/or private pension funds (PFAs) (the Reserve Bank, a lending agency with public capital, is creating its own PFA), under the supervision and specialized control of SIPEN, which was created

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<sup>7</sup> This cost reflects the mandatory transfer from the current system to the new pension system.

by the aforementioned law. To implement the three regimes mentioned above, a series of specific regulations must be approved for each type of benefit. Under the law, the pension contribution system was to take effect on 1 February 2003. The other two plans, which would be subject to their financial and fiscal viability, would not come into effect until after January 2005. There must also be accounting and financial separation between the pension and health areas (a more detailed description of the new pension system is provided in Annex IV, in the Division technical files).

#### **E. Bank strategy in the sector**

- 1.8 As stipulated in the country paper (document GN-2153-1), the Bank's strategy in the Dominican Republic aims to help authorities preserve the economic growth and stability achieved in the last decade, while tackling the challenge of reducing the social debt. To that end, the Bank, in addition to supporting specific programs targeting education, health, housing, water supply, sanitation, and social investment, is also seeking to help resolve macroeconomic weaknesses and expand institutions' ability to meet social demands. Moreover, the Bank's strategy on development of financial markets considers financial deepening to be key in stepping up economic and social growth in countries. By extending coverage and protection to the most vulnerable sector of the population, increasing private-sector involvement in the delivery of services, and fostering development of PFAs as institutional investors, the development and implementation of the SDSS, particularly the pension area, clearly contribute to fulfillment of the Bank's strategy in the country. The program is consistent with the Bank's current strategy for the country, particularly vectors I and II, the objectives of which are to help reduce the country's fiscal and financial vulnerability and improve its capacity to provide social services. The region included this operation in the operations program presented to the Board as part of the strategy update.
- 1.9 Several factors provide the necessary justification for the Bank to support the Dominican Republic with this operation. Firstly, as indicated in paragraph 1.4, the Bank is already playing a very important role by supporting social security reform efforts with its approval of a loan to modernize the health sector. The Bank's active portfolio, as well as different projects being prepared, is highly complementary, including specifically the aforementioned health sector modernization and restructuring program (1047/OC-DR) and the program to support social sector institutional reform (1333/OC-DR). This operation is a necessary complement directly stemming from that process. Secondly, the Bank is becoming increasingly more involved in supporting social security reform projects in the region and can therefore contribute its experience regarding best practices and what has worked well in other countries. Lastly, Bank support for the creation and strengthening of SIPEN will lay the foundation to guarantee adequate operation of the PFA system and, specifically, pension reserve administration.



- 1.10 The health sector modernization and restructuring program (1047/OC-DR), to be executed by the CERSS, provides for policy, institutional, and service delivery reforms with investments in technical assistance, training, infrastructure, equipment, and new service delivery mechanisms. The project also provides for activities to restructure and modernize the health area of the Dominican Social Security Institute (IDSS) and support implementation of the new social security system. The program has made it possible to step up health sector reforms, steering the process and establishing guidelines for managing the creation of a more universal, equitable, humane, and effective social security system. The performance of studies provided vital information that supported the creation of Dominican Social Security System Law No. 87-01, which was promulgated by the Executive Branch on 9 May 2001 and entered into force on 1 August 2001. This new legal framework breaks down responsibility for startup of the system, establishing deadlines for its gradual implementation. The health sector modernization and restructuring program has closely supported institutions related to the IDSS and has identified five strategic areas being supported by the project: (i) formation and development of the Manager's Office of the National Social Security Council (CNSS); (ii) development of the data and collection system; (iii) formation and development of the Information and Member Protection Department (DIDA); (iv) the Superintendency of Health and Occupational Hazards; and (v) the start of National Health Insurance (SENASA). It has also contributed in part to the startup of SIPEN. Program actions have focused on supporting preparation of the regulatory basis for each area, basic equipment, and preparation of the studies needed to coordinate the management, regulation, financing, and delivery of resources and services to be managed in the sector. Moreover, it provides for procurement of the hardware that will be used in the Consolidated Social Security Data and Collection System. In addition, activities are being executed through the Primary Care Fund (FONAP) and the Hospital Improvement and Administration Fund (FONHOSPITAL), which are pilot subprojects that are implementing resource and service administration alternatives that can be used as models for the new system.

**F. Coordination with other multilateral development institutions**

- 1.11 The World Bank does not have any lending operations for pension reform. However, it has offered to provide technical assistance for training the staff of the Superintendency of Pensions, particularly, in the use of the PROST model, in order to determine the cost of reform. The project team has remained in contact with the World Bank specialists through periodic meetings in order to avoid duplication of efforts and promote complementarity in the pension sector initiatives.

**G. Program strategy**

- 1.12 Development of the pension area of the SDSS poses three substantial challenges: the first is related to **institutional and technical weakness for implementing the**

**new pension system, because this is a new model for the country and because its structure is only now being defined and its supervisory body created.** The corresponding authorities will therefore need external technical support for proper implementation and development of the regulations, supervision, and institutional definition for the new system, the creation and startup of PFAs, and particularly the investment regime for administering pension reserves; this last aspect is of the utmost importance for the development of the financial sector and the strengthening and deepening of the capital market. The second challenge is associated with the **lack of adequate economic and demographic data to perform the valuations of the fiscal impact of implementing the new pension system; accordingly, appropriate information systems will need to be created and supplemented for efficient valuation of the pension system in the Dominican Republic.** Moreover, given the foreseeable fiscal effects, there must be an adequate evaluation of the fiscal impact of the new pension regime, together with financing alternatives that guarantee its long-term sustainability and allow for continued strong performance of the economy thereafter. Lastly, the new SDSS requires that **the different agents in the new system** (regulators, supervisors, pension funds, and the insured) be **“educated and trained”** to make them fully aware of each agent’s rights and obligations; appropriate dissemination systems must be introduced to that end.

- 1.13 The project team and Dominican authorities discussed the country strategy for creating a separate Superintendency of Pensions. The authorities’ arguments were as follows: (1) When the law was adopted, the Monetary and Financial Bill recently presented by the Executive Branch for congressional approval was being discussed. (2) The issue of adequate coordination with the economic and supervisory authorities is covered through the make-up of SIPEN’s governing body, by including the President of the Central Bank, the Minister of Finance, and the Superintendent of Banks, among others. and (3) The issue of efficiency stemming from the risk of an oversized SIPEN was handled by hiring an international consultant who reviewed the structure proposed by the authorities. A new structure that takes into account international standards and draws international comparisons with other Latin American countries was agreed upon. Lastly, it is important to mention that the new monetary and financial bill redefines the Banking Superintendency and specifically incorporates the practice of consolidated supervision. Approval of that law and its implementation will again raise the matter of the country’s oversight structure, particularly once the Banking Superintendency effectively implements consolidated supervision.

## II. THE PROGRAM

### A. Objectives and description

- 2.1 The main program objective is to support the development and implementation of the pension area of the Dominican Social Security System (SDSS) created by Law 87-01, through a technical cooperation loan for US\$5 million and in particular the pension contribution system. The specific objectives are to: (i) provide technical support to establish all the necessary regulations for proper functioning of the Superintendency of Pensions (SIPEN), including its institutional, administrative, financial, and technical design and implementation; set the terms and conditions for the creation and operation of pension fund administrators (PFAs); establish a prudential investment regime for PFAs, consistent with the size of the Dominican financial system and the risks in that system; create and implement training mechanisms for SIPEN staff; and develop information and internal and external communication systems for SIPEN and the supervised entities; (ii) support the authorities in preparing an information application for financial evaluation of the new pension regime; examine the fiscal impact of pension reform; verify the financial viability of the new system; and identify options for financing it; and (iii) work with authorities on a transparency strategy for implementation of the new pension regime, by developing promotion and dissemination plans for all participants.

### B. Program structure

- 2.2 The three components indicated below were identified for program implementation. It is important to mention that for the purposes of valuing the different components, comparisons were drawn with the budgets used in other Bank-financed programs supporting pension reform and with information provided by consultants specializing in pension systems.
- 2.3 **Component 1. Superintendency of Pensions and preparation of supplemental rules (US\$3,207,917).** The purpose of this component is to support the organization and implementation of the Superintendency of Pensions (SIPEN). The main activities include: (i) specialized technical assistance and training for SIPEN personnel; (ii) procurement of the corresponding software and hardware; (iii) the process for identifying participants system and issuing identification cards therefor; (iv) preparation and dissemination of the regulations and supplemental rules needed for the operation of the new pension regime, including: operating regulations for PFAs and delivery of their services; regulations for existing pension plans and the supplemental plans created by the law; design of the information, control, and monitoring system; operating regulations for the Interagency Pension Committee, the National and Regional Medical Commission, and the Risk Rating and Investment Ceiling Commission; risk rating and investment ceiling policies; and

policies for issuing acceptance bonds; (v) financial and actuarial valuation of supplemental regimes and existing pensions plans, to design a system for calculating and allocating acceptance bonds for transfers from current systems to the new one; (vi) financial and actuarial valuation of the new pension system; (vii) a statistical and demographic survey with tables on mortality and disability in the country; this component also includes rules for evaluating disability; and (viii) a study on methodologies for calculating programmed annuities and withdrawals.

- 2.4 **Component 2. Analysis of the financial viability of the new pension regime (US\$478,512).** This component involves the consolidated financial evaluation of current liabilities of existing regimes and the new pension regime's viability and sustainability. It includes the following activities: the financial and actuarial valuation of the Dominican Social Security Institute (IDSS); valuation of the fiscal impact of the new pension regime, along with financing options that will guarantee its long-term sustainability, particularly valuation of the cost of the minimum pension guarantee, using options-pricing models. It is important to mention that analyses performed prior to the enactment of the new law highlighted the lack of appropriate data for proper valuation of pension reform; to date, that situation has not been remedied. This component will therefore include collecting and constructing the data needed to properly assess the various costs and implications of pension reform and will provide for ongoing monitoring.
- 2.5 **Component 3. Plan to promote and publicize the new pension system (US\$1,591,071).** This component corresponds to the authorities' intention to make implementation of the new system transparent; for this, the different agents that make up the new system (regulators, supervisors, pension funds, and the insured) must be "educated and trained" so they are fully aware of their rights and obligations. This component includes a 12-month institutional radio and television campaign to promote the new system, development of a user information system, and implementation of an education campaign through schools on the importance of pension savings and on the role of SIPEN. It also involves conducting two surveys to measure the impact of the institutional publicity campaign, which will be conducted four months and 18 months into the program.
- 2.6 **Program administration and financing costs.** The project also includes US\$422,500 to fund the administration and financial costs of the project, which includes remuneration for the coordinators to be appointed by the executing agencies for project administration, as well as the external audit of the program. In addition, the financing will include the sum of US\$100,000 for inspection and supervision fees and interest accruing during project execution.

## **C. Cost and financing**

### **1. Budget**

- 2.7 The total cost of the proposed program is US\$5.7 million. IDB financing will total up to the equivalent of US\$5 million from the Bank's Ordinary Capital. The local counterpart contribution to be provided by the borrower will be in the amount of US\$700,000. The general terms and conditions for the loan are presented in the Executive Summary. The table below summarizes the budget by investment category and type of financing. A table breaking down costs by component is presented on the following page. A breakdown of costs by category and component is provided in the division technical files.
- 2.8 **Local counterpart.** The local counterpart contribution for program execution will come out of the budget of the CNSS, SIPEN, and DIDA. The agreement to be entered into between the CNSS, SIPEN, DIDA, and the agreement establishing the CNSS as the executing agency along with the Executive Branch (the Technical Secretariat of the Office of the President) requires the latter to include the respective budget items for the counterpart contribution and the Bank's financing. That agreement will also establish a flexible mechanism for transferring financing and counterpart resources. Moreover, Budget Autonomy Law of CNSS and the SIPEN will ensure the ready availability of those funds.

**Table 2.1**  
**Breakdown of costs, by category (in US\$)**

<b>COMPONENTS I + II + III</b>			
	<b>IDB</b>	<b>LOCAL</b>	<b>TOTAL</b>
<b>I. Individual consultants</b>	<b>1,704,029</b>	<b>119,747</b>	<b>1,823,776</b>
1.1 International	1,092,281	62,138	1,154,418
1.2 National	407,935	24,081	432,016
1.3 Per diems and other benefits	116,160	16,626	132,786
1.4 Travel	87,652	16,903	104,556
<b>II. Consulting firms</b>	<b>826,397</b>	<b>90,331</b>	<b>916,728</b>
2.1 National firms	684,711	71,811	756,522
2.2 International firms	141,686	18,520	160,206
<b>III. Information technology</b>	<b>1,235,670</b>	<b>282,208</b>	<b>1,517,878</b>
3.1 Hardware	603,720	64,723	668,443
3.2 Software and access	361,785	39,024	400,809
3.2 Individual files for issuing ID cards and identifying participants	270,765	178,461	448,626
<b>IV. Other expenses</b>	<b>867,833</b>	<b>151,285</b>	<b>1,019,118</b>
4.1 Training	139,288	26,919	166,207
4.2 Events, publicity, and publications	728,545	124,366	852,911
<b>V. Administrative costs</b>	<b>266,072</b>	<b>18,928</b>	<b>285,000</b>
5.1 General coordinator	65,000	-	65,000
5.2 Coordination assistant	30,000	-	30,000
5.3 Project Coordinating Unit Offices	70,000	-	70,000
5.4 Coordination and control meetings	1,072	18,928	20,000
5.5 Independent auditing firm	100,000	-	100,000
<b>VI. Financial Expenses</b>	<b>100,000</b>	<b>37,500</b>	<b>137,500</b>
6.1 Inspection and supervision fees	50,000		50,000
6.2 Interest accruing during project execution	50,000		50,000
6.3 Credit fee		37,500	37,500
<b>TOTAL</b>	<b>5,000,000</b>	<b>700,000</b>	<b>5,700,000</b>

**Table 2.2**  
**Breakdown of costs, by component (in US\$)**

	<b>IDB</b>	<b>Local</b>	<b>Total</b>
<b>Component I - Superintendency of Pensions and preparation of supplemental rules</b>	2,791,488	416,429	3,207,917
<b>Component II - Financial viability analysis</b>	478,512	-	478,512
<b>Component III - Plan to promote and publicize the SDSS</b>	1,363,928	227,143	1,591,071
<b>Project administration and financial expenses</b>			
Total financial expenses	1,000	37,500	137,500
Total for project administration	266,072	18,928	285,000
<b>Overall total</b>	<b>5,000,000</b>	<b>700,000</b>	<b>5,700,000</b>

## **2. Retroactive recognition of expenses paid out of the local contribution**

- 2.9 Upon acceptance by the Bank of the proceeds of the loan, up to the equivalent of US\$250,000 may be used for reimbursement of expenses incurred by the executing agencies in connection with Component I of the program, and up to the equivalent of US\$50,000 for reimbursement of expenses incurred by the executing agencies in connection with components II and III since 1 July 2002. This modality is being included in response to a specific request from the authorities and in recognition of SIPEN's need to have the basic regulations for the Superintendency and for the operation of the PFAs duly approved by the Executive Branch by 1 February 2003.

### **III. PROGRAM EXECUTION**

#### **A. Borrower, guarantor, and executing agency**

- 3.1 The Dominican Republic will be the borrower. Pursuant to Law 379 of 2001 each component of the program will be executed by one of the three entities forming the SDSS. The National Social Security Council General Management (CNSS) will be responsible for implementing the program, particularly the activities of component 2. The Superintendency of Pensions (SIPEN) and DIDA as coexecuting agencies will be responsible for components I and III, respectively. To this end, they will receive administrative support from Program Coordinating Unit (PCU), to be set up within the CNSS.

#### **B. Project execution and administration**

- 3.2 To coordinate overall management of resources, a program coordinating unit will be created that reports directly to the CNSS General Management, DIDA, and, where appropriate, to SIPEN. Decentralization of management will allow the CNSS, SIPEN, and DIDA to perform concurrent and/or ex post monitoring and control of the subaccounts, based on the following considerations: (i) the activities called for in the program addresses legal mandates given to different entities, which are an integral part of the SDSS, and each component must be executed by the competent entity; (ii) this design allows for greater flexibility in executing the different program components, in that the different components can be executed independently, preventing delays in one of the agencies from adversely affecting execution of the rest of the program; and (iii) the participation of the entities, on the same level, will make it possible to strengthen their capacity to exercise the institutional autonomy granted to them by law.
- 3.3 The PCU, *inter alia*, will be responsible for: (a) designing and implementing the accounting and internal control system for operations; (b) presentation of the program Operating Regulations and the annual work plans; (c) preparation of semiannual reports; (d) verification of compliance with contractual conditions; (e) verification of status of special bank accounts for administration of the financing and the local counterpart funding; (f) support for procurement of goods and related services and the hiring of consultants for program execution in accordance with Bank procedures; (g) financial administration of program resources in accordance with Bank rules and policies; (h) presentation of the financial statements of the program examined by a firm of independent auditors; (i) centralization of program technical and financial information and its processing, in accordance with Bank rules and policies, with every effort being made to ensure that proper files and records are kept; (j) maintaining of a program administration monitoring system that provides proper feedback on monitoring, evaluation, and ongoing improvements; (k) processing of requests for disbursement and accountability to the



Bank in respect of program execution; (l) planning, coordination, and/or implementation of activities concerned with monitoring, control, and evaluation of beneficiaries in order to achieve the expected quality performance; and (m) publication of semiannual reports on the progress of the program based on the information furnished by the executing agencies. As conditions precedent to disbursement of resources, the PCU must be established and its core staff selected. Also, the program Operating Regulations must be submitted.

- 3.4 SIPEN and DIDA will be responsible for: (i) maintaining a consolidated, detailed accounting system for the program, in accordance with the chart of accounts established by the central executing agency; (ii) managing program resources through specific commercial bank accounts for the financing and the local counterpart contribution; (iii) the filing system for support documents for eligible program expenses; (iv) the system of accountability to the CNSS General Management; (v) approving bidding documents for the procurement of goods and services and contracting services for components 1 and 3 of the program; and (vi) providing the auditors hired for the program with access to all files with support documents on eligible program expenses.
- 3.5 The borrower, through the Technical Secretariat of the President's Office, must sign a responsibility transfer agreement with the CNSS making the latter the program executing agency, responsible in particular for component 2, and stipulating how program funds will be transferred. **This agreement, together with the creation of the PCU (mentioned in the previous paragraph), will be conditions precedent to the first disbursement. The CNSS General Management, in its capacity as executing agency, must enter into a separate agreement with DIDA and with SIPEN stipulating that the latter is solely responsible for executing the activities described in component 1 and that DIDA is solely responsible for the activities of component 3. These agreements must be submitted as conditions precedent to the first disbursement of resources.**

#### **C. Method of execution**

- 3.6 The estimated execution period for program activities is three years. The technical files contain a detailed schedule of program activities. The technical characteristics of the program and the nature of the executing agencies require that the program be executed through a flexible modality, with ongoing monitoring. To that end, it will be executed based on annual work plans (AWPs) to be prepared by the PCU and reviewed by the Bank's technical team. The starting point for preparation of the first and subsequent plans will be the objectives, activities, and goals identified in the program's Logical Framework (see Annex I and Operating Regulations). The Country Office will be responsible for program monitoring and execution, with due collaboration from the project team. Presentation of the annual work plan for the first year of program execution will be a condition precedent to disbursement of

program resources; the AWP's will be reviewed every six months by the Bank's technical team.

**D. Monitoring and evaluation**

- 3.7 Semiannual administrative meetings have been planned between Bank, CNSS, and SIPEN technical teams for monitoring and readjustments during program execution. At those meetings, the Technical Unit and Bank teams will assess fulfillment of the activities in the preceding work plan and establish specifications for the next plan. At the second semiannual meeting, a midterm evaluation of the program will be conducted; in addition to the foregoing items, it will cover the progress made in achieving the operation's objectives, as well as implementation of operation components. The loan contract will stipulate that, if the semiannual meetings find that adjustments must be made to the program, the borrower will take appropriate steps to make those changes. The evaluation will be based on the indicators set forth in the Logical Framework.

**E. Revolving fund**

- 3.8 At the request of the executing agency, a revolving fund may be established with up to 10% of the Bank's total financing, to facilitate program execution. The PCU must manage those funds in a special bank account in the program's name. The Country Office may lower the amount of the Fund, taking into account the plan of operations agreed to with the executing agency. The executing agency must present semiannual reports on the status of the revolving fund within sixty (60) days of the close of each six-month period in the calendar year.

**F. Procurement of goods and services**

- 3.9 Goods and related services will be procured and consulting services engaged in accordance with current Bank policies and procedures. The program does not call for the construction of works. Program operating regulations will be agreed to with the authorities before the program is presented to the Bank's Board of Executive Directors for approval.
- 3.10 When the amount of the goods to be procured is equal to or greater than the equivalent of US\$250,000 or when the amount of consulting services to be engaged is equal to or greater than the equivalent of US\$200,000, international competitive bidding will be performed. Procurements below those amounts will be governed, in principle, by the provisions of national law, provided they do not contradict basic Bank principles on procurement and contracting.

**G. External auditing**

- 3.11 In accordance with Bank requirements, the program's audited annual program financial statements will be presented by the PCU within 120 calendar days of the

end of each fiscal year, during the program execution period. Those statements will be presented starting in the first year of program execution and throughout the execution period; they will be audited by an independent firm of auditors acceptable to the Bank. The audit will be performed in accordance with the terms of reference approved in advance by the Bank, including, *inter alia*, examination by sampling to determine the validity and eligibility of program expenses supporting the various disbursement requests and an ex post review by sampling of the processes for selecting and contracting program goods and services. Audit fees will be paid with financing resources.

## **H. Performance indicators**

- 3.12 The project team has considered development of indicators of the operation's: (1) efficiency; and (2) impact. **Efficiency** indicators include: (a) participation in the system of at least 700,000 persons in the course of 2003; (b) training of 60% of personnel on their new functions during the disbursement period; (c) completion of the actuarial and audit studies, including the estimate of fiscal implications of the reform; (d) collection and timely dissemination of the information SIPEN needs; and (e) maintaining the current size of SIPEN, which is consistent with standards in other similar institutions. **Impact** indicators include: (a) that SIPEN has been established; (b) that the oversight mechanisms for the pension system are operating adequately; (c) that, by the end of the program, 100% of participants in the contributory system have been issued ID cards; (d) that the new system is financially sustainable; (e) that control mechanisms have been created to prevent avoidance and/or evasion of contributions to the system; and (f) that a survey of beneficiaries shows the new pension system to be better than the current one.

## **I. Ex post evaluation**

- 3.13 Since this is a technical cooperation operation, the main activity is the hiring of consultants whose work must be evaluated when they deliver their final reports. The project team therefore does not feel that an ex post evaluation of the project is necessary. Component 3 includes the surveys to determine the impact of the promotion and dissemination plans.

## **IV. FEASIBILITY AND RISKS**

### **A. Institutional and financial feasibility**

- 4.1 Law 379 of 2001 creates the National Social Security Council and the Superintendency of Pensions as the regulatory agencies for the system. In the context of the proposed program, the government will lay the institutional foundation for the operation of SIPEN through the specific actions described in component 1 (paragraph 2.3). Performance of the activities in that component will facilitate the operability of SIPEN and of the other entities responsible for the reform. In particular, establishment of its administrative structure, regulations, and eligibility criteria for authorizing the operation of private pension fund associations, risk rating for investing the resources collected by pension funds, participation rules for current social security contributors, training of participants in the process, etc. will create the conditions for the system to be operating adequately at program's end. Moreover, with the coverage of the reform's fiscal gap and appropriate execution of the promotion plan laid out in component 3, it is estimated that all program stakeholders (regulators, supervisors, PFAs, and the insured) will make it possible to develop a financially-sustainable pension model.

### **B. Environmental and social feasibility**

- 4.2 The Committee on Environment and Social Impact (CESI) considered this program at its 31 May 2002 meeting. The declaration of environmental feasibility is presented in document XIII (Technical Files). The project team took into account CESI recommendations when preparing this program. The program does not have any environmental impact, because its activities focus on implementation and regulation of the Social Security Law, preparation of fiscal impact studies, and implementation of pension training programs. The social elements are considered positive, indirectly; that is because the new pension system dismantles the current system, which contains regressive income transfer elements, and because coverage mechanisms are established for the lowest-income segment of the population, specifically with the establishment of a minimum pension. As mentioned earlier, the fiscal impact could nonetheless be significant.

### **C. Benefits**

- 4.3 The nature of investments in a program such as this does not allow for full use of traditional cost-benefit evaluation methodologies. Nonetheless, use of analyses from other disciplines, such as political science, sociology, or historical-institutional studies, clearly shows the contribution made by adequate management of the pension regime and by SIPEN. Moreover, theoretical analysis and practical experience show that the best way to strengthen the role and enhance the potential

importance of such an institution is to modernize its internal systems and improve management capacity.

- 4.4 This program pursues direct and indirect benefits, focused in three areas:
- (i) A significant improvement in pension system supervision;
  - (ii) A quantitative and qualitative increase in demographic data in the country, to be able to anticipate the full effects of the reform, as well as its fiscal implications; and
  - (iii) Strengthened dissemination of the pension reform by the CNSS. This will make the legislation more relevant and more in line with reality and the feasibility of its implementation and enforcement.

#### **D. Risks**

- 4.5 There are two direct project risks: (1) the execution period; and (2) the role of participating institutions. Regarding the first, even though the execution period of 36 months seems very short given the complexity of implementing the new pension system, this time frame coincides with the execution schedule for the various activities specifically set forth in the law. Regarding the second, the institutional weakness stemming from the country's lack of experience with pension systems is another significant risk. It is therefore essential that the new institutional framework for the system be built based on top-quality technical support and that suitable training mechanisms be implemented for all personnel in the government and private agencies participating in the system. The program includes a budget to hire leading international experts so that construction of the new pension system can move forward efficiently and in a timely fashion, pursuant to the established legal framework.
- 4.6 The project teams feels that another important aspect of this operation is the identification and quantification of the substantial fiscal risks stemming from implementation of the new pension system. Those risks, once assessed, must be addressed by a financing strategy that ensures the sustainability of the system. Even though the new benefits are contingent on the availability of funds, past experience shows that governments end up making the payments stipulated in the law. Lastly, the government is the final guarantor of all losses workers may incur during the pension accrual and payment phases, which may encourage administrators to avoid taking excessive risks. To avoid many of the problems, information systems are needed that are very efficient in terms of their coverage and timeliness. It is also essential for the oversight bodies to be highly professional and effective and to have adequate power to impose penalties and legal backing for the exercise of their functions, which must be sufficiently enshrined in the regulations prepared as

output in this program. The proposed program seeks to mitigate these risks by not supporting a pension system that would not be viable in the country.

**LOGICAL FRAMEWORK**  
**Support for Pension Reform (DR-0146)**

Action/Summary	Performance indicators	Means of verification	Controlling assumptions
<b>General objective</b>			
1 Increased effective pension coverage.	1.1 Fifty percent (50%) of the working population is covered by the system three years after project completion.	1.1.1 SIPEN verifies records of Social Security Computing and Collection Board (PRISS) membership.	1 Enterprises have the necessary financial sustainability. 2 Macroeconomic stability and growth are maintained.
<b>Project purpose</b>			<b>Purpose to general objective</b>
1 The institutional and organizational framework for the new Social Security Law is developed and implemented, and the fiscal and financial sustainability of the new pension system is duly evaluated, disseminated, and debated.	1.1 SIPEN and the entire underlying regulatory framework have been duly developed and implemented. The financial and actuarial valuation of the new pension system, including possible financing options, has been prepared and broadly disseminated and debated. Sixty percent (60%) of the working population in the formal sector belongs to the system at project's end.		1 There is the political resolve to make adjustments to the pension system.

Action/Summary		Performance indicators	Means of verification	Controlling assumptions
Project components				Purpose of the components
1	Stakeholders will be better prepared for the transition, creation and startup of SIPEN, PFA regulations, and supplemental pension regimes.	<p>1.1 Regulations and supplemental rules are approved and operating systems technology is installed within two years.</p> <p>1.2 At least 300 persons, including executives, managers, and technical staff, are trained in the different areas of the system's administration and management during project execution.</p>	<p>1.1.1 SIPEN administrative resolutions and decrees.</p> <p>1.1.2 Audits of management and technology processes and systems.</p> <p>1.2.1 Reports from the training workshops.</p>	<p>1 Financial instruments of sufficient quality and quantity are available in the long term.</p> <p>2 The counterpart to the loan is available in a timely fashion.</p> <p>3 There are no dire consequences if the deadlines are not met.</p>
2	Awareness of the fiscal impact of the enhanced system.	2.1 The fiscal cost of the system is estimated during the project execution period.	2.1.1 Cost estimate study.	4 Fiscal and financial authorities provide adequate, timely cooperation to obtain the information needed to measure the fiscal impact.
3	Awareness in the population of the improved system.	3.1 At least 80% of the formal working population is informed at project's end.	3.1.1 Survey.	



Action/Summary	Performance indicators	Means of verification	Controlling assumptions
<b>Activities/component</b>			<b>Component activities</b>
1.1 Preparation of the SIPEN plan of activities.	1.1 Budget execution.	1.1.1 Consultants' report.	1 There is an alternative source of financing until the loan is disbursed.
1.2 Establishment of SIPEN's structure and organization.	1.2 Budget execution.		
1.3 Development of training programs for system personnel.	1.3 By June 2003, at least 50% of supervisory personnel have been trained.	1.3.1 Reports from SIPEN's visit to the PFAs.	2 The State trains withholding agents.
1.4 Preparation of draft regulations and supplemental rules for the system.	1.4 By June 2003, the operating regulations for PFAs have entered into force.	1.4.1 Publication of the rules and regulations.	3 The Executive Branch promulgates the rules.
1.5 Design of the system operating structure.		1.5.1 Publication of PFA reports.	4 The CNSS approves the supplemental rules.
1.6 Implementation of the system operating structure.	1.6 By December 2003, SIPEN has conducted an on-site examination of at least five PFAs.	1.6.1 Publication of regular, timely information from SIPEN on developments in the system.	5 The data and collection system is available and is operating in a reliable, timely fashion.
1.7 Audits of managerial and technological processes and systems – monitoring, control, and information system.	1.7 By September 2003, there are audited balance sheets for SIPEN as of June 2003.	1.7.1 Publication of SIPEN's financial statements.	

Action/Summary	Performance indicators	Means of verification	Controlling assumptions
2.1 Inventory available information.	2.1 Budget execution.	2.1.1 Consultants' reports.	
2.2 Collection of the additional information needed.	2.2 Budget execution.	2.2.1 Consultants' reports.	
2.3 Conduct actuarial baseline studies for the financial and actuarial valuation of the IDSS and existing supplemental regimes.	2.3 By December 2003, a financial valuation study on the IDSS and supplemental regimes will have been delivered to the Bank.		
2.4 Development of economic/ actuarial models for measuring and simulating fiscal impact.	2.4 By December 2003, a study on the fiscal impact of pension reform will have been delivered to the Bank.		
3.1 Development of education and awareness campaigns for the populace.	3.1 Budget execution.		
3.2 Design and taking of impact measurement surveys.	3.2 Indicators measuring knowledge of the SDSS before and after the publicity campaigns show an increase of at least 30%.		

**DR-0146**

**IMPLEMENTATION OF PENSION REFORM**

**PROCUREMENT PLAN**

<b>Main program procurements</b>	<b>Total (in thousands of US\$)</b>	<b>Financing %</b>		<b>Method</b>	<b>Pre-qualification (yes/no)</b>	<b>Estimated date</b>
		<b>IDB</b>	<b>Local</b>			
<b>A Procurements</b>						
1. Hardware	668	603	64	ISB	YES	II-2003
2. Software and access	401	362	39	ISB	YES	I-2003
<b>B. Consulting services</b>						
1. International consultants	1,154	1,092	62	ICB	YES	II-2003
2. National consultants	432	408	24	LCB/IN	YES	I-2003
<b>C. Administrative costs</b>						
1. General coordinator	65	65	-	IN	YES	I-2003
2. Coordination assistant	30	30	-	IN	YES	I-2003
3. Offices for Technical Operating Unit	70	70	-	IN	YES	I-2003
4. Coordination and control meetings	20	1	19	IN	YES	I-2003
5. Independent auditing firm	100	100	-	IN	YES	I-2003

ICB: International competitive bidding

LCB: Local competitive bidding

IN: Invitation to submit statements of qualifications

ISB: International invitation to submit bids

LSB: Local invitation to submit bids